

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|---|-----------------------------------|---|-------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name Calhoun Conservation District | County Calhoun |
| Fiscal Year End December 31, 2007 | Opinion Date February 14, 2008 | Date Audit Report Submitted to State February 28, 2008 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

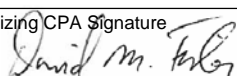
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | | |
|--|-------------------------------------|---|-------------|-------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | | |
| Financial Statements | <input checked="" type="checkbox"/> | | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | | |
| Other (Describe) | <input checked="" type="checkbox"/> | Single Audit Reports (included with Financial Statements) | | |
| Certified Public Accountant (Firm Name) REHMANN ROBSON | | Telephone Number 517-787-6503 | | |
| Street Address 675 Robinson Road | | City Jackson | State Mi | Zip 49203 |
| Authorizing CPA Signature  | | Printed Name David M. Fisher, CPA | | License Number 10337 |

CALHOUN CONSERVATION DISTRICT

Basic Financial Statements and Single Audit

For The Year Ended September 30, 2007



REHMANN ROBSON

Certified Public Accountants

CALHOUN CONSERVATION DISTRICT

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

February 14, 2008

To the Board of Directors of the
Calhoun Conservation District
Marshall, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **Calhoun Conservation District (the "District")** as of and for the year ended September 30, 2007, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the Calhoun Conservation District. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Calhoun Conservation District as of September 30, 2007, and the respective changes in its financial position thereof and the budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The District has not presented Management's Discussion and Analysis (MD&A) as required supplementary information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be, part of the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Calhoun Conservation District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Calhoun Conservation District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

BASIC FINANCIAL STATEMENTS

CALHOUN CONSERVATION DISTRICT

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET

SEPTEMBER 30, 2007

| <u>ASSETS</u> | <u>General Fund</u> | <u>Adjustments</u> | <u>Statement of Net Assets</u> |
|--|--------------------------|----------------------------|------------------------------------|
| Cash and cash equivalents | \$ 297,525 | \$ - | \$ 297,525 |
| Due from State | 29,228 | - | 29,228 |
| Capital assets | | | |
| Assets not being depreciated | - | 2,137,623 | 2,137,623 |
| Assets being depreciated | - | 986 | 986 |
| Total assets | <u>\$ 326,753</u> | <u>\$ 2,138,609</u> | <u>\$ 2,465,362</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | | | |
| Liabilities | | | |
| Accrued expenses | 3,920 | - | 3,920 |
| Deferred/unearned revenue | 90,923 | - | 90,923 |
| | <u>94,843</u> | <u>-</u> | <u>94,843</u> |
| Fund balance | | | |
| Unreserved - undesignated | 231,910 | (231,910) | - |
| Total liabilities and fund balance | <u>\$ 326,753</u> | | |
| Net assets: | | | |
| Investment in capital assets | | 2,138,609 | 2,138,609 |
| Unrestricted | | 231,910 | 231,910 |
| Total net assets | | <u>\$ 2,370,519</u> | <u>\$ 2,370,519</u> |

The accompanying notes are an integral part of these financial statements.

CALHOUN CONSERVATION DISTRICT

Reconciliation of General Fund Balance Sheet to Statement of Net Assets

SEPTEMBER 30, 2007

| | |
|---|----------------------------|
| Fund balances - General Fund | \$ 231,910 |
| Amounts reported for <i>governmental activities</i> in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | <u>2,138,609</u> |
| Net assets of governmental activities | <u>\$ 2,370,519</u> |

The accompanying notes are an integral part of these financial statements.

CALHOUN CONSERVATION DISTRICT

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED SEPTEMBER 30, 2007

| | General Fund Actual | Adjustments | Statement of Activities |
|------------------------------------|---------------------------|---------------------|-------------------------------|
| Revenues | | | |
| Federal grants | \$ 1,118,390 | \$ - | \$ 1,118,390 |
| State grants | 196,577 | - | 196,577 |
| Project income and other grants | 1,026,426 | - | 1,026,426 |
| Contribution from County | 10,000 | - | 10,000 |
| Charges for services | 63,689 | - | 63,689 |
| Interest and contributions | 12,060 | - | 12,060 |
| Other revenues | 38,265 | - | 38,265 |
| Total revenues | 2,465,407 | - | 2,465,407 |
| Expenditures/expenses | | | |
| Other general government | | | |
| Soil conservation | | | |
| Administration | 80,722 | - | 80,722 |
| Project services | 2,281,966 | (2,000,823) | 281,143 |
| Depreciation expense | - | 329 | 329 |
| Total expenditures/expenses | 2,362,688 | (2,000,494) | 362,194 |
| Net change in fund balance | 102,719 | (102,719) | |
| Change in net assets | | 2,103,213 | 2,103,213 |
| Fund balance/net assets | | | |
| Beginning of year | 129,191 | 138,115 | 267,306 |
| End of year | \$ 231,910 | \$ 2,138,609 | \$ 2,370,519 |

The accompanying notes are an integral part of these financial statements.

CALHOUN CONSERVATION DISTRICT

Reconciliation of the General Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities

FOR THE YEAR ENDED SEPTEMBER 30, 2007

| | |
|---|------------|
| Net change in fund balance - General Fund | \$ 102,719 |
|---|------------|

Amounts reported for *governmental activities* in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their estimated
useful lives and reported as depreciation expense.

| | |
|------------------------------|--------------|
| Add: capital outlay | 2,000,823 |
| Deduct: depreciation expense | <u>(329)</u> |

| | |
|---|-----------------------------------|
| Changes in net assets of governmental activities | <u><u>\$ 2,103,213</u></u> |
|---|-----------------------------------|

The accompanying notes are an integral part of these financial statements.

CALHOUN CONSERVATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
YEAR ENDED SEPTEMBER 30, 2007

| | Original Budget | Amended Budget | Actual | Over (Under) Budget |
|--|----------------------------|---------------------------|--------------------------|------------------------------------|
| Revenues | | | | |
| Federal grants | | | | |
| Rice Creek and Battle Creek 319 | \$ - | \$ - | \$ 118,390 | |
| Department of Defense - National Guard | | | 1,000,000 | |
| | <u>2,215,000</u> | <u>1,156,678</u> | <u>1,118,390</u> | <u>(38,288)</u> |
| State grants | | | | |
| MGSP Groundwater Stewardship | | | 64,000 | |
| NC CMI grant income | | | 10,180 | |
| Regional Curves Project - MDOT | | | 106,544 | |
| MDA Base Operations grant | | | 9,600 | |
| AmeriCorps Grant Income | | | 2,965 | |
| Wetland Restoration grant | | | 3,288 | |
| Total state grants | <u>84,200</u> | <u>192,325</u> | <u>196,577</u> | <u>4,252</u> |
| Project income and other grants | | | | |
| Kalamazoo River Heritage | | | 12,290 | |
| Environmental Education | | | 7,011 | 7,011 |
| Kellogg Foundation grant | | | 1,000,000 | 1,000,000 |
| Burn Team Income | | | 7,125 | 7,125 |
| Total project income/other | <u>1,576,950</u> | <u>1,065,111</u> | <u>1,026,426</u> | <u>(38,685)</u> |
| Contribution from County | <u>10,000</u> | <u>10,000</u> | <u>10,000</u> | <u>-</u> |
| Charges for services | | | | |
| Reforestation sales | | | 9,969 | 9,969 |
| Brandt Woods Timber Harvest | | | 2,325 | 2,325 |
| Other | | | 51,395 | 51,395 |
| Total charges for services | <u>43,850</u> | <u>83,040</u> | <u>63,689</u> | <u>(19,351)</u> |
| Interest and contributions | <u>2,400</u> | <u>22,104</u> | <u>12,060</u> | <u>(10,044)</u> |
| Other revenues | <u>-</u> | <u>-</u> | <u>38,265</u> | <u>38,265</u> |
| Total revenues | <u>3,932,400</u> | <u>2,529,258</u> | <u>2,465,407</u> | <u>(63,851)</u> |
| Expenditures | | | | |
| Other general government | | | | |
| Soil conservation | | | | |
| Administration | | | | |
| Salaries and wages | | | 38,110 | |
| Fringe benefits | | | 14,989 | |
| Office supplies and expense | | | 15,520 | |
| Contractual, annual, and and other expenditures | | | 12,103 | |
| Total Administration | | | <u>80,722</u> | |
| Project Services | | | | |
| Rice Creek and Battle Creek 319 Grant | | | 181,643 | |
| AmeriCorps | | | 2,965 | |
| Kalamazoo River Heritage | | | 7,036 | |
| MGSP grants | | | 64,001 | |
| Burn Team | | | 358 | |
| Planting | | | 8,650 | |
| Property acquisition | | | 2,008,279 | |
| Environmental Education | | | 9,034 | |
| Total Project Services | <u>-</u> | <u>-</u> | <u>2,281,966</u> | |
| Total expenditures | <u>3,885,410</u> | <u>2,362,985</u> | <u>2,362,688</u> | <u>(297)</u> |
| Net change in fund balances | <u>46,990</u> | <u>166,273</u> | <u>102,719</u> | <u>(63,554)</u> |
| Fund balance, beginning of year | <u>129,191</u> | <u>129,191</u> | <u>129,191</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 176,181</u> | <u>\$ 295,464</u> | <u>\$ 231,910</u> | <u>\$ (63,554)</u> |

The accompanying notes are an integral part of these financial statements.

CALHOUN CONSERVATION DISTRICT

Notes To Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Calhoun Conservation District (the “District”) was organized for the purpose of “providing local guidance and involvement in the promotion of soil conservation in Calhoun County, Michigan”. The Conservation District is a local unit of the State of Michigan, which operates under the direction of a board of directors. The Board oversees the development and implementation of soil and water conservation activity in Calhoun County, Michigan.

In accordance with the provisions of Government Accounting Standards Board (GASB) Statement No. 14, certain other governmental organizations may be considered to be part of the reporting entity for financial statement purposes. The criteria established by GASB Statement No. 14 for the various governmental organizations to be included in the reporting entity’s financial statements include oversight responsibilities and financial accountability.

In this regard, there are no other governmental organizations associated with Calhoun Conservation District subject to the above criteria nor are there any other governmental organizations in existence. All funds of the reporting entity are included in the financial statements as presented.

Government-wide and Fund Financial Statements – As permitted by GASB Statement No. 34, the District uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets and Governmental Fund Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances. The major individual governmental fund is reported as a separate column in the aforementioned financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation – The government-wide financial information is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

CALHOUN CONSERVATION DISTRICT

Notes To Basic Financial Statements

Governmental fund financial information is reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the *general fund* as the District's primary operating fund. It accounts for all financial resources of the District, except those, if any, required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

Fund Equity – In the fund financial statements, the governmental fund reports designations of fund balance for amounts that represent tentative management plans that are subject to change. There were no designations of fund balance at September 30, 2007.

Budgetary Information – The general fund is under formal budgetary control and its budget is prepared on the same modified accrual basis used to reflect actual results.

CALHOUN CONSERVATION DISTRICT

Notes To Basic Financial Statements

2. CASH AND EQUITY IN POOLED CASH AND INVESTMENTS

Deposits are classified as follows:

| | |
|------------|-------------------------|
| Petty cash | \$ 100 |
| Deposits | <u>297,425</u> |
| | <u>\$297,525</u> |

All accounts are in the name of the Calhoun Conservation District. They are recorded in District records at cost. Interest is recorded when deposits mature or is credited to the applicable account.

The District is authorized by Michigan law to invest surplus funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the District to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Cash and cash equivalents are in accordance with the statutes above.

CALHOUN CONSERVATION DISTRICT

Notes To Basic Financial Statements

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. At year end, the carrying amount of the District's deposits was \$297,425. The bank balance of these deposits was \$286,842, of which \$56,006 was not insured by the Federal Depository Insurance Corporation (FDIC) and not collateralized.

3. CAPITAL ASSETS

| | Beginning Balance | Additions | Disposals | Ending Balance |
|---|------------------------------|----------------------------|--------------------|----------------------------|
| Governmental Activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 136,800 | \$ 2,000,823 | \$ - | \$ 2,137,623 |
| Total capital assets not being depreciated | <u>136,800</u> | <u>2,000,823</u> | <u>-</u> | <u>2,137,623</u> |
| Capital assets, being depreciated: | | | | |
| Equipment & Furniture | 2,302 | - | - | 2,302 |
| Total capital assets being depreciated | <u>2,302</u> | <u>-</u> | <u>-</u> | <u>2,302</u> |
| Less accumulated depreciation for: | | | | |
| Equipment & Furniture | 987 | 329 | - | 1,316 |
| Total capital assets being depreciated, net | <u>1,315</u> | <u>(329)</u> | <u>-</u> | <u>986</u> |
| Capital assets, net | <u>\$ 138,115</u> | <u>\$ 2,000,494</u> | <u>\$ -</u> | <u>\$ 2,138,609</u> |

CALHOUN CONSERVATION DISTRICT

Notes To Basic Financial Statements

4. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements for the general fund, the District's actual and budgeted expenditures for the budgetary funds have been shown on a fund basis. The approved budgets of the District for these budgetary funds were adopted on a fund level basis.

5. RISK MANAGEMENT

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended September 30, 2007, the government carried commercial insurance to cover all risks of losses. The government has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

6. LEASE

The District leases its office facility on a month-to-month basis for \$350 per month. Rental expense for the District was \$4,200 for the year ended September 30, 2007.

* * * * *

CALHOUN COUNTY CONSERVATION DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2007

| Federal/Pass-through Grantor Program Title | CFDA Number | Pass-through Grantor Number | Award Amount | Federal Expenditures |
|--|------------------------|--|-------------------------|---------------------------------|
| U.S. Department of Defense | | | | |
| National Guard | | | | |
| Special Military Operations and Projects | | | | |
| Cooperative Agreement for Land Acquisition | 12.402 | -n/a- | \$ 1,000,000 | \$ 1,000,000 |
| Environmental Protection Agency | | | | |
| Passed through Michigan Department of Environmental Quality | | | | |
| Federal Clean Water | 66.460 | -n/a- | 505,801 | 118,390 |
| Total Expenditures of Federal Awards | | | | <u>\$ 1,118,390</u> |

Notes:

The Schedule above presents the activity of all federal award programs of the District, and the information is presented in accordance with the requirements of ONB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The Schedule above is presented using the modified accrual basis of accounting which is described in Note 1 of the District's basic financial statements.



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

 an independent member of
BAKER TILLY
INTERNATIONAL

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

February 14, 2008

To the Board of Directors of the
Calhoun Conservation District
Marshall, Michigan

We have audited the financial statements of the governmental activities, and the major fund of **CALHOUN CONSERVATION DISTRICT** as of and for the year ended September 30, 2007, and have issued our report thereon dated February 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Calhoun Conservation District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2007-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we do not consider item 2007-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Calhoun Conservation District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of Calhoun Conservation District in a separate letter dated February 14, 2008.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, management, the Board of Directors, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

February 14, 2008

To the Board of Directors of the
Calhoun Conservation District
Marshall, Michigan

Compliance

We have audited the compliance of **CALHOUN CONSERVATION DISTRICT** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. Calhoun Conservation District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Calhoun Conservation District's management. Our responsibility is to express an opinion on Calhoun Conservation District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Calhoun Conservation District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Calhoun Conservation District's compliance with those requirements.

In our opinion, Calhoun Conservation District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2007.

Internal Control Over Compliance

The management of Calhoun Conservation District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Calhoun Conservation District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-2 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Calhoun Conservation District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, the Board of Directors, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is positioned in the lower right area of the page.

CALHOUN CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Significant deficiency (ies) identified
not considered to be material weaknesses?

X yes _____ none reported

Noncompliance material to financial statements
noted?

_____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

_____ yes X no

Significant deficiency (ies) identified
not considered to be material weaknesses?

X yes _____ none reported

Type of auditors' report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)?

_____ yes X no

CALHOUN CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|---|--|
| 12.402 | Cooperative Agreement for Land Acquisition |
| Dollar threshold used to distinguish between Type A and Type B programs: | <u>\$300,000</u> |
| Auditee qualified as low-risk auditee? | _____ yes <u> X </u> no |

SECTION II – FINANCIAL STATEMENT FINDING

2007-1 Preparation of Financial Statements in Accordance with GAAP

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Cause: This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

CALHOUN CONSERVATION DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded)

FOR THE YEAR ENDED SEPTEMBER 30, 2007

Recommendation/

Comment:

The District has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

View of

**Responsible
Officials:**

The District has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the district to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

2007-2 Recording of Grant Revenue and Expenditure

Criteria:

Generally accepted accounting principles (GAAP) require that all grant activity be recorded in an entity's general ledger system as revenue and expenditure.

Condition:

The District recorded grant activity of approximately \$2,000,000 through a deferred revenue account rather than grant revenue and capital outlay expenditure. This treatment affected \$1,000,000 of the Department of Defense Cooperative Agreement for Land Acquisition.

Cause:

This condition was caused by the District's decision to record the activity in the deferred revenue account since the revenue equated with the expenditure.

Effect

As a result of this condition, the government lacks internal controls over the recording of federal and other grant revenue in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation/

Comment:

We recommend that the District record all grant activity in revenue and expenditure accounts, rather than netting.

View of

**Responsible
Officials:**

The District will plan on recording this activity in the general ledger for these types of transactions in the future.

SECTION IV – PRIOR YEAR FINDINGS

The District was not required to have a Single Audit for the year ending September 30, 2006.

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



February 14, 2008

To the Board of Directors
Calhoun Conservation District
Marshall, Michigan

We have audited the financial statements of Calhoun Conservation District for the year ended September 30, 2007, and have issued our report thereon dated February 14, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated November 27, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Calhoun Conservation District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Calhoun Conservation District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Calhoun Conservation District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Calhoun Conservation District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Calhoun Conservation District's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Calhoun Conservation District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Calhoun Conservation District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. [Omit or modify as applicable]

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Calhoun Conservation District's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, one of the adjustments we proposed, which was recorded by Calhoun Conservation District, indicate matters that could have a significant effect on Calhoun Conservation District's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Calhoun Conservation District’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Calhoun Conservation District, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

Calhoun Conservation District

Comments and Recommendations

For the Year Ended September 30, 2007

In planning and performing our audit of the financial statements of In planning and performing our audit of the financial statements of Calhoun Conservation District as of and for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be significant deficiencies are described in the Schedule of Findings and Questioned Costs in the District's Single Audit report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Other Matters

Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the District's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

As is the case with many organizations of similar size, the District lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Calhoun Conservation District

Comments and Recommendations (Concluded)

For the Year Ended September 30, 2007

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the District's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the District's internal control structure, and cannot not be relied upon as part of management's systems to deter or detect fraud and abuse.

As a result of this condition, the District lacks the proper segregation of duties. While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible. In certain areas, the District has does require such reviews. However, we noted the following areas which could be further strengthened with independent review:

- All journal entries should be accounted for sequentially and filed with supporting documentation.
- Receipts are used generally for all receipts except for state grant remittances in the form of check. In the future, we recommend that a receipt be used for all receipts including state checks in order to enhance the internal control in this area.

* * * * *